AGRICULTURAL OUTLOOK DIGEST

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OUTLOOK '71

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OUTLOOK FOR 1971

This will be a year of stepped-up activity for farming, and for the general economy.

Crop supplies are reduced and prices are running above levels of late 1970. Livestock supplies are currently larger than in 1970, tending to hold down first-half prices. But second-half prices probably will average higher than in 1970.

Export demand for farm products displays considerable strength, and domestic markets appear to be headed for a stronger year.

Gross farm income probably will achieve a new record. Net income per farm, tempered by higher production costs, will approach the 1969 peak.

The total economy is expected to resume a course of real growth that was interrupted in 1970. Greater government spending and expansion-minded monetary policies will favor economic growth. Consumers will invest more heavily in housing and automobiles, and spend more as their disposable income improves.

Consumers will pay higher retail prices, although the increase for food likely will be limited. And the reduction of unemployment, currently at a relatively high level, will be a critical problem.

Higher input prices will boost farm production expenses, probably enough to more than offset higher gross farm income, lowering net farm income. Income of farm people from nonfarm sources, however, is expected to increase.

Principal sources of higher farm costs will be purchased feed—reflecting unusually strong prices for grains and soybeans—and services such as wages to hired workers, insurance, and real estate taxes.

STRONG DEMAND

Demand for farm products from both domestic and foreign markets will expand in 1971.

Consumer spending for food and other items will rise. Disposable personal income may gain by 7 percent, somewhat below the record 8½ percent surge last year.

ECONOMIC UPTURN

Real gross national product, after slipping in 1970, is expected to expand moderately.

Federal spending will be stepped up and an expansionary monetary course will be followed. A larger supply of home mortgage money, lower interest rates and more liberal business depreciation rules are planned.

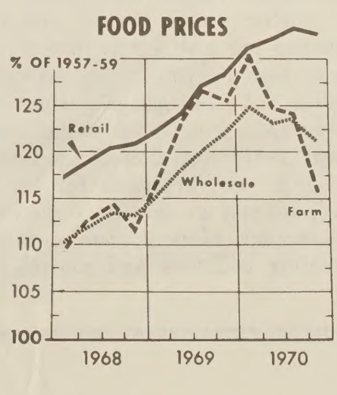
Likely results are a housing boom, pickups in auto sales and capital investment by business, and fuller employment.

Despite the brighter business and real-growth prospects, unemployment and inflation—both tough to curb—will color the economy's overall performance.

Farmers will make limited gains in accruing equity. Farmland prices, which boosted farmers' assets as they rose in recent years, probably will continue to rise slowly, as in 1970. Meanwhile, liabilities will grow as farmers contract more debt at near-record interest rates.

Uncertainties cloud this year's outlook. Crop prices currently are high, bolstered by reduced grain and oilseed supplies. But the net effects on 1971 crop production of new farm programs and of potential corn blight damage are highly uncertain.

Livestock producers' prospects also are cloudy at present, hinging on feed costs and on producers' breeding decisions during the first half of 1971. For the first half of this year, large livestock supplies are predicted, especially for hogs, with prices averaging lower than a year ago. Second-half prices may strengthen as supplies taper down.



Contributing to this year's gain in disposable personal income will be higher wage rates and lower tax rates. This prospect, and the likelihood that consumers will ease off from their tight-fisted rate of personal savings during the past year, will boost spending in 1971.

Exports of farm products hit $7.2 billion for calendar year 1970. Both volume and unit prices of our farm exports are forecast to remain strong during the first half of 1971. Export demands for soybeans and for grains are strong. Foreign supplies of wheat and cotton are smaller than a year ago, pointing to improved U.S. exports. But our shipments of tobacco and rice are likely to be smaller.

INTEREST, LAND PRICES EASE

Keys to the changing financial position of farmers this year are high but easing interest rates, and a small but continuing rise in farmland prices.

Interest rates charged to farmers for both short and longterm credit likely will drop about 1 percentage point this year, accompanied by greater availability of money in both loan categories. Life insurance companies, almost out of the farm mortgage lending picture last year, are expected to be more active in 1971.

This improvement in credit plus the pressures of rising production expenses will result in continued farm debt expansion. U.S. farm debt rose 6 percent last year, totaling $60.4 billion. The easier credit may prod a farm real estate market that has slowed to a crawl. Farm real estate prices advanced only 3 percent for the year ended November 1970, the smallest rise since 1960. Average price per acre leveled off in many States, as record land prices coupled with record interest rates deterred many buyers.

Look for only moderate reaction in farm real estate markets to lower interest rates this year. Farm real estate buying decisions take time to actuate, and prices and interest rates still hover near record levels.

According to a November 1, 1970, survey of farm real estate reporters, prospects for strong 1971 land-price gains are notable only in the Northeast and Southeast.

Elsewhere, land owners who sell farm real estate may suffer, especially if they paid the peak prices of the last 4 years.

A variable interest clause in farm mortgage loans, started by Federal land banks last year, may be used more widely for farm real estate loans in 1971.

Just as land contract sales became popular during the sixties when land prices spiraled, variable interest clauses—permitting interest to float with prevailing rates—were initiated in a climate of high interest rates, to appease both lenders and borrowers.

MORE CATTLE OUT YONDER

The 1971 livestock inventory estimated 114.6 million cattle and calves on farms January 1, up 2 percent from a year earlier. The beef cow herd gained 3 percent, and heifers for beef cow replacement 4 percent, from January 1970. These increases indicate further expansion of U.S. beef-producing capacity.

A 3-4 percent increase in the number of feeder cattle not yet on

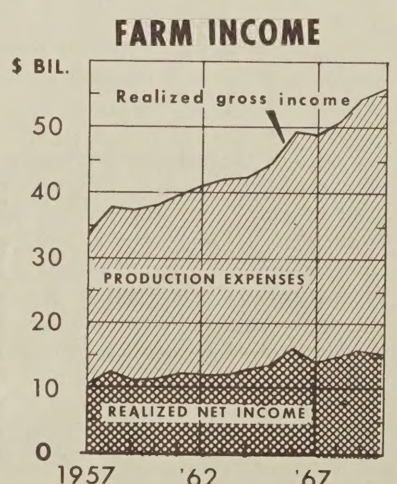
FARM INCOME RETRENCHES

Farm people's income from off-farm sources will rise, due to higher wages and a stronger economy. But a dip is expected in net income from farming.

Realized net farm income is likely to fall short of the $15.8 billion of 1970 ($5,392 per farm). Gross farm income will rise to a record of perhaps about $57 billion, on the strength of larger crop marketings. But heavier outlays for farm production expenses will more than offset the income gain.

Higher average prices and larger volume are forecast to sharply boost cash receipts from crop marketings. Prices of feed grains, wheat, and soybeans are expected to hold above early 1970 levels through the first half of this year. Prospects for fall crop supplies still are subject to the effects of the new farm program on farmers' planting decisions and the threat of Southern corn leaf blight damage. But smaller carryover supplies are likely to assist crop prices in second-half 1971.

Livestock producers may realize a little less in 1971 than the $29.1 billion cash receipts of 1970.



During the first half, livestock marketings will continue large and prices lower than in 1970. In the second half, some recovery in hog prices is likely, as producers step down hog output to a little over 1970 levels, in contrast to recent expansions. Fed cattle marketings near a year earlier will help keep prices firm. Large marketings and prices continuing relatively low are likely for broilers and eggs during the second half. Dairy income may gain a little for 1971.

RECORD PRODUCTION EXPENSES

Farm production expenses will top the $40.4 billion of last year. The increase, however, likely won't equal last year's $2 billion rise.

Biggest increase is expected for an item of farm origin—purchased feed. Grain prices will stay high during the first half, and carryovers smaller than

feed January 1 points to larger fed cattle marketings after mid-year.

Dairy cow and heifer numbers each declined 1 percent. Sheep and lambs reached a record low of 19.6 million head.

CATTLE PRICES HOLDING FIRM, HOGS IMPROVING

During the first half of 1971, fed cattle marketings will approximate year-ago levels. Fed cattle prices have recently strengthened from their early winter lows. Prices may slip from early February levels but should remain firm in the spring.

Feeder cattle prices will rise seasonally this spring. But more feeders will keep the increase smaller than last spring.

Burdensome pork output and low hog prices will continue through first half of 1971. Prices are likely to rise a little this summer as slaughter drops seasonally. And, farrowing reductions intended by producers for March, April, and May would curb fall slaughter and limit seasonal price declines then.

Planned cutbacks are in response to severe hog price declines and sharp feed cost increases during the past year. Hog prices have strengthened during the last few weeks, and in early February, barrows and gilts at 7 markets averaged $19.50 per 100 pounds, about $4 above a month ago, but still below a year earlier. The January hog-corn ratio was 10.6 lowest since 1956.

POULTRY PREDICAMENT

Looks like poultry prices will rise later this year. First-half egg and broiler prices will continue below last year's levels.

First-half egg production is expected to be up 2-3 percent from 1970, and prices probably will average moderately lower. During the second half, a trio of helpful factors is expected: smaller production due to a reduced layer flock, strong demand by egg breakers, and higher consumer incomes. By fall, egg prices may average near a year earlier.

Poultry producers are still caught between low prices and high feed costs. Large pork supplies and high grain prices, which began pressuring producers last fall, will continue through mid-1971. First-half broiler prices are expected to average below 1970 levels, despite slightly smaller output.

Plans of pork producers, grain farmers, and broilermen will shape the second half. Current intentions point to less second-half pork output. Broiler production may be about like the second half of 1970. This combination could lift fall prices over year-ago levels. Broiler feed costs, though, will depend partly on the outcome of fall grain crops.

BIG FEED GRAIN CROP

The 1971 feed grain program will give farmers more flexibility in their operations. Acreage set aside is expected to be just over half the 37 million acres diverted in 1970.

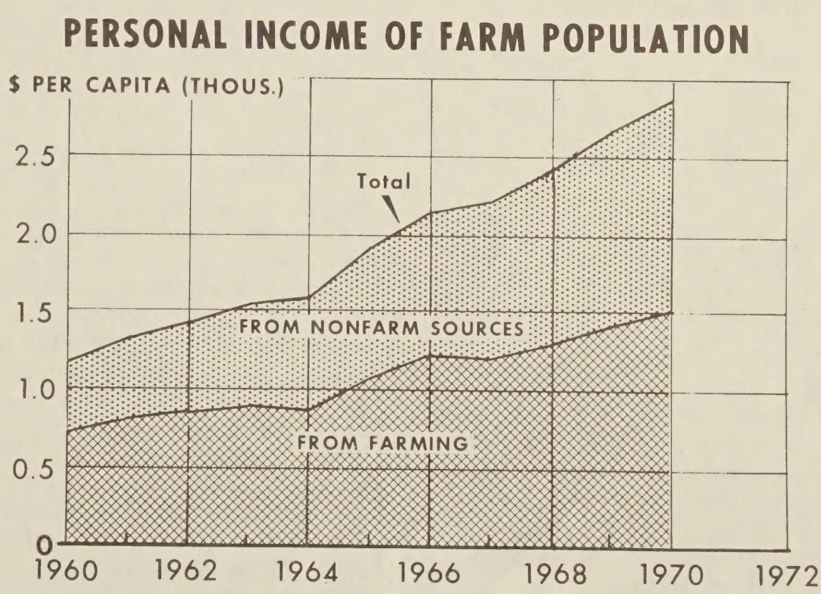
A January 1 survey shows larger acreages planned for all feed grains expect oats. Even with as much corn blight damage as in 1970, but with more favorable weather in the Western

last year are expected to limit declines at harvesttime. High-protein feed prices have been high because of heavy demand.

Substantial increases also are likely in outlays for wages, which rose an average of 21 cents per hour in the last 2 years; insurance, including a scheduled 11-percent bound in Social Security taxes; farm real estate taxes; farm machinery; and fertilizer.

Fertilizer prices, which declined during the 1960's, may rise sharply this year as higher potash prices and recent wage and freight increases are passed on to customers.

The farm production cost picture does hold some moderating factors. Interest rates will ease off a little. Replacement livestock prices, especially for feeder pigs, are currently lower than in 1970. Only moderate increases are predicted for pesticide and seed costs this year.



Per capita income (before taxes) of farm people hit a new high of $2,872 last year. A big gain in income from nonfarm sources, in prospect for 1971, will help offset an expected dip in net farm income.

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Corn Belt, grain output could rise around 10 percent above last year.

This spring and summer, both feed usage and exports will decline some from the record pace of recent months, reflecting tight supplies. Accordingly, total feed grain disappearance for 1970/71 is forecast to decline slightly. Even so, the carryover will drop 12 to 15 million tons below the 48 million tons of last season.

HOW MUCH SEED CORN?

There is more than enough, judging by total supplies. There is too little, though, from a blight-resistance standpoint. Farmers would need about 800 million pounds to carry through January planting intentions. A special Statistical Reporting Service survey showed that major seed companies hold 828.5 million pounds of corn for spring planting, believed to represent 4/5ths of a total U.S. supply of about 1 billion pounds.

The supply of N-cytoplasm seed, which resists Southern corn leaf blight only made up 23 percent of the seed companies' total. Another 40 percent was blight susceptible T-cytoplasm, likely to yield lower if blight occurs. Remaining seed was blended from both seed types.

TWO IN A ROW

For the second straight year, soybean use will exceed output by a wide margin, as domestic crush and exports achieve record highs. The carryover next September 1 likely will drop to 65-75 million bushels.

> **FOOD PRICE PROSPECTS: UP SOME**
>
> Average food prices are expected to move up very slowly this year, following the large 5½ percent increment for 1970.
>
> The average farm price of food commodities in 1971 will be lower, with livestock prices mainly responsible. But marketing costs, which leaped 7 percent last year, will rise further, somewhat more than offsetting lower farm prices.
>
> Prices likely will move up through the first 3 quarters, then level off as seasonally large food supplies flow in. The price average for 1971 probably will be 2 or 3 percent higher than for 1970.
>
> Grocery store prices probably won't increase more than 1 or 2 percent contrasting with last year's 5-percent rise. Away-from-home eating prices may register a 5 or 6 percent gain.

Soybean prices will continue well over the $2.35 loan rate this season—possibly averaging $2.80 per bushel. Early planting intentions for the 1971 crop point to a 7-percent boost in acreage.

The indicated 46 million acres would still produce less soybeans than are likely to be used in the marketing year starting next fall. It would take about 49 million acres to balance anticipated use.

WHEAT FAVORED

Wheat exports may total 725-750 million bushels for 1970/71, nearly a fourth larger than last season, and wheat feeding may rise by a tenth. These prospects point to the smallest carryover since July 1968, well below the 885 million bushels of last July 1. Prices, estimated to average $1.35 per bushel for the season, are above loan for the first time in 3 years.

COTTON STOCKS DWINDLE

Cotton production last year exceeded the 1969 crop by 3 percent, but prospects for improved exports and stable or slightly larger mill use during 1970/71 point to a reduction in the carryover next August. Stocks may drop about 1¼ million bales below the 5¾ million bales of 1970.

In January, farmers intended to plant 11.9 million acres this year, a little less than in 1970.

MORE WINTER VEGETABLES

Freezes in late January damaged some vegetable crops in Florida. But winter vegetable production still is estimated 4 percent more than last winter. Peppers and tomatoes are up from last year's very short crops, and cabbage and celery are in large supply. Lettuce marketings may be off slightly, and carrot production is down materially. Prices the next 4 to 6 weeks likely will continue above average, but below the unusually high prices of last winter.

Canned and frozen vegetable supplies for the 1970-71 season are running moderately less than a year earlier and the 1970 pack of six major frozen vegetables was about 6-8 percent smaller.